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The President's Daily Brief

September 29, 1976

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FOR THE PRESIDENT ONLY

September 29, 1976

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LEBANON: *The Syrians
agreed late yesterday,*

*to a
Fatah proposal for an
immediate cease-fire--
presumably in the Mount*

[redacted] Fatah
and other Palestinian groups--
which apparently concur in the
Fatah proposal--may be prepared
to withdraw from the Mount Leba-
non area.

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The Syrian drive to dislodge the
Palestinians from the Mount Leba-
non area met stiff resistance
yesterday. Both sides claim to
have inflicted heavy casualties,
but no important terrain appeared
to have changed hands.

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[redacted] Heavy shelling is con-
tinuing in Beirut and around Trip-
oli.

*PLO chief Yasir Arafat
sent urgent appeals
yesterday to several
Arab leaders, accusing
Syria of attacking
without provocation
and asking them to use
their influence to
stop the fighting.*

Egyptian President Sadat predicta-
bly denounced the Syrian offensive
and accused the Syrian government
of trying to destroy the Palestin-
ians and Lebanese leftists. Mean-
while, Damascus radio called for
the removal of Arafat as the head
of the PLO.

Lebanese President Sarkis continued
his round of meetings with Lebanese
leaders yesterday. His efforts to
breathe new life into the dead-
locked tripartite talks have been
stopped cold at least until the
Syrians obtain their military ob-
jectives or the Palestinians agree
to accept the Syrian terms for a
cease-fire.

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USSR: *Moscow has heightened its campaign to limit Western exploitation of the MIG-25.*

A Soviet government statement yesterday, largely a rehash of Moscow's second protest note to the Japanese, again warned Japan that its failure to return the plane could not fail to affect Soviet-Japanese relations now and in the future. The Soviets may have been prompted to release the statement because of Japanese press stories reporting that the Japanese Foreign Ministry and the military were arguing about how soon to return the plane.

The Soviets also seem to be making a new effort to get First Lieutenant Belenko to return to the USSR.

The Foreign Ministry yesterday held an unprecedented press conference attended by the pilot's wife and mother. They both took the line that Belenko had not defected, but Belenko's wife said that if the pilot "had made a mistake," she had been reassured at the "highest level" all would be forgiven.

The personal message to you from the Belenko women asking for the return of the pilot will, of course, suggest to a Soviet audience that the US government is holding Belenko against his will.

The Soviets probably do not expect that Belenko will return, but they may think there is an outside chance, given the return of the Olympic diver who defected in Canada this past summer. Moscow would view Belenko's defection as a major help in discouraging other would-be defectors.

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Even if Belenko stays in the US, the statements by his wife and mother will support the regime's portrayal of Belenko as being held under duress.

We do not know yet whether the pilot who defected to Iran last week was aware of Belenko's action, but the Soviets are undoubtedly concerned that these defections may trigger more.

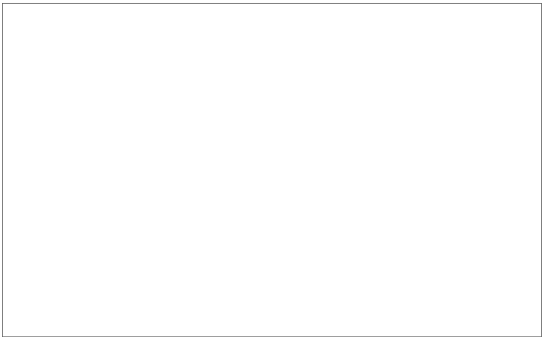
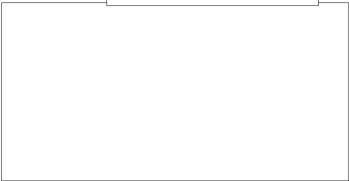
The two defections come on the heels of several other incidents over the past year or so which suggest that Moscow's problems with morale, discipline, and security in its armed forces have increased.

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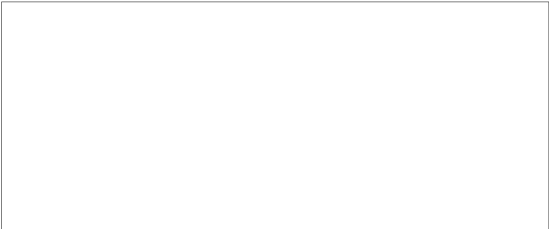
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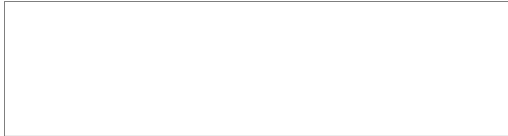
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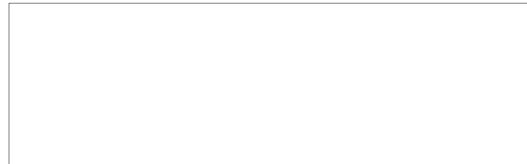


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USSR: In his address to the UN General Assembly yesterday, Foreign Minister Gromyko invited the US to begin discussing ways to reduce Soviet and US military activity in the Indian Ocean. This marks the first such bid from a high-ranking Soviet leader.

Gromyko did not mention the US by name, but said the USSR was "ready to look, together with other powers," for ways of reducing the "military activity of nonlittoral states in the Indian Ocean."

He added that Moscow was also ready to "participate in consultations" for convening an international conference on the Indian Ocean, but only if the Soviet approach "is taken into account to the necessary degree." The Soviets are primarily seeking talks that would eliminate foreign military bases in the area.

In the remainder of his speech, Gromyko:

--repeated the Soviet call for a reduction in the military budgets of the permanent members of the Security Council;

--reiterated the usual Soviet references to a non-use-of-force treaty, ending nuclear weapons tests, and dismantling foreign military bases;

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--called for resumption of the Geneva conference to settle the Arab-Israeli dispute;

--called for the immediate admission of the Republic of Vietnam to the UN;

--criticized US military programs and Secretary Kissinger's peace efforts in the Middle East and Africa; and

--took the opportunity to ask the Chinese to "normalize" relations.

* * *

UK: *The pound continued its decline yesterday despite Prime Minister Callaghan's unusually stern speech at the annual Labor Party conference.*

The speech, obviously aimed at restoring confidence in the pound, which fell to a low of \$1.63 yesterday, gave notice to the trade unions and the left wing of the Labor Party that the government will not waver in its efforts to rehabilitate the economy and to curb the rise in public spending and borrowing.

Callaghan probably hoped to assure Britain's creditors that the government will not bend to the demands of the left wing for increased spending and further nationalization of industry.

Chancellor of the Exchequer Healey and Bank of England Governor Richardson delayed their departure for the Commonwealth finance ministers' meeting to meet with other senior officials yesterday. Foreign exchange traders saw this move as a sign that the government might enact some emergency measures to support the pound.

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The cabinet apparently has not decided what measures, if any, should be adopted. An import deposit scheme, such as the one imposed by Italy several years ago, seems the most likely, although Healey apparently is opposed. It is doubtful that such a measure would be effective in halting the pound's decline because of the large sterling balances held outside the country.

* * *

CHINA: The destruction and economic disruption caused by the earthquakes that occurred in Hopei Province on July 28 will severely retard the current Five-Year Plan (1976-1980).

Reconstruction and relief combined with production losses will total more than \$10 billion. Some 3 to 4 percent of national industrial production will be directly or indirectly lost for at least two years, and agricultural damage can be repaired only through intensive labor.

The near total destruction in parts of the affected area indicates that casualties were extremely high. Various sources have estimated fatalities ranging from 100,000 to 800,000. Peking probably will never release an official figure.

Three critical sectors of economic activity were particularly hard hit--coal, steel, and transport. It will be over a year before they can return to full operation.

Balance of payments may suffer in the short run since both exports and imports will be hurt. Later, as ports and inland transport are cleared of relief priorities, China may try to increase petroleum exports in order to earn the hard currency required to import additional steel and equipment.

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The goals of the Five-Year Plan will have to be adjusted to include, at a minimum, the rebuilding of the city of Tang-shan and increased production to offset that lost because of the earthquakes.

Mao's death a little over a month after the quakes increases political uncertainties and further complicates economic decision-making.

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